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REVISED SYSTEM OF NATIONAL ACCOUNTS

CHAPTER XIV

THE REST OF THE WORLD ACCOUNT

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XIV. THE REST OF THE WORLD ACCOUNT

(External Transactions Account)

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List of Acronyms

ECU	European currency unit
c.i.f.	costs, insurance, and freight
CPC	Central Product Classification
f.o.b.	free on board
GDP	gross domestic product
IMF	International Monetary Fund
NPI	non-profit institution
OECD	Organisation for Economic Cooperation and Development
SDR	Special Drawing Right

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(External Transactions Account)

A. Introduction

1. In the System, the accounts relating to the resident institutional sectors portray various facets of economic activity, i.e., production, the generation, distribution and redistribution of income, consumption and accumulation. The relevant accounts capture both transactions taking place between the resident institutional sectors of the total economy and transactions with non-resident units that make up the rest of the world. In an analogous fashion, the Balance Sheets of the System cover the stocks of assets and of liabilities of resident institutional sectors vis-à-vis each other as well as vis-à-vis the rest of the world.

2. The System is closed in the sense that both ends of every transaction are recorded; that is, each transaction is shown as a "use" or outgoing from one part of the System and a "resource" or incoming into another part. The stocks of assets during an accounting period vary as a result of these transactions, together with other flows, i.e., holding gains or losses and other changes in volume, such as uncompensated seizures or catastrophic losses of assets.

3. The transactors and holders of assets and liabilities in the System are the resident institutional units of a given economy. In order for the System to be closed, a segment must be provided to capture those flows that are not reflected as "uses" or "resources" for two resident units but rather only for one. That segment is known in the System as "the rest of the world." The Rest of the World Account, following the general accounting structure with only minor variation, comprises those categories of accounts necessary to capture the full range of transactions that take place between the total economy and the rest of the world (table XIV.1). Specifically, they are:

(1) the External Account of Goods and Services;

(2) the External Account of Primary Incomes and Current Transfers;

(3) the external accumulation accounts, consisting of

  (a) the Capital Account, covering transactions involving capital transfers and acquisitions less disposals of non-produced non-financial assets;

  (b) the Financial Account, covering transactions in financial assets and liabilities;

  (c) Other Changes in Volume of Assets Account, covering uncompensated seizures, etc., and

(d) Revaluation Account, covering nominal holding gains and losses (accounts (3) and (4) reflect those changes (flows) in external assets and liabilities that are not attributable to transactions); and

(4) the External Assets and Liabilities Account, which presents the opening and closing Balance Sheets and the changes in the value of those assets and liabilities between the opening and closing Balance Sheets.

4. The full coverage of the items enumerated in each of the above accounts, together with the relevant balancing items, appears in subsequent sections of this chapter. It should be noted that the Rest of the World Account is presented from the point of view of the rest of the world so that a resource for the rest of the world is a use for the total economy and vice-versa. If a balancing item is positive, it signifies a surplus of the rest of the world and a deficit for the total economy, and vice-versa if the balancing item is negative.

5. In one sense, the Rest of the World Account has a unique character because it is not linked to any specific type of economic activity such as production, consumption, capital formation, etc. Instead, all transactions between resident institutional units and non-resident units in respect of all kinds of economic activity are captured under the broad label of the Rest of the World Account.

6. The flows relating to property income in the Primary Distribution of Income Accounts for the resident institutional sectors contain elements of property incomes receivable (payable) from (to) the rest of the world that are reflected in the External Account of Primary Incomes and Current Transfers. In the Generation of Income Account for institutional sectors, the item "compensation of employees" includes compensation payable to non-resident employees, which also is recorded in the External Account of Primary Incomes and Current Transfers on the resources side. In an analogous fashion, transactions in the Financial Accounts for institutional sectors contain transactions in financial instruments vis-à-vis non-residents that have their counterpart entries in the Financial Account component of the external accumulation accounts. Viewed from this perspective, the various components of the Rest of the World Account are indeed complementary to the sequence of accounts for resident institutional sectors.

B. Residence

7. The sectors and sub-sectors of an economy are composed of two main types of institutional units which are resident in the economy - (1) households covering individuals who make up a household and (2) legal and social entities, such as corporations and quasi-corporations (e.g., branches of foreign direct investors), non-profit institutions (NPIs), and the government of that economy. Residence is an important attribute of an institutional unit, particularly in respect of the Rest of the World Account, which records transactions between residents and non-residents. The residency status of producers determines the limits of domestic production and affects the measurement of gross domestic product (GDP) and many important flows in the System. The concept and coverage of residence here are identical to those in the Balance of Payments Manual of the International Monetary Fund (IMF).

8. The concept of residence used here is not based on nationality or legal criteria (although it may be similar to concepts of residence which are used for exchange control, tax or other purposes in many countries). Moreover, the boundaries of a country which may be recognized for political purposes may not always be appropriate for economic purposes and it is necessary to introduce the concept of the "economic territory" of a country as the relevant geographical area to which the concept of residence is applied. An institutional unit is then said to be a resident unit when it has a centre of economic interest in the economic territory of the country in question. The following explains what is meant by "economic territory" and "centre of economic interest."

1. The economic territory of a country

9. The economic territory of a country consists of the geographic territory administered by a government within which persons, goods, and capital circulate freely. In the case of maritime countries, it includes any islands belonging to that country which are subject to exactly the same fiscal and monetary authorities as the mainland, so that goods and persons may move freely to and from such islands without any kind of customs or immigration formalities. The economic territory of a country includes: (1) the airspace, territorial waters, and continental shelf lying in international waters over which the country enjoys exclusive rights or over which it has, or claims to have, jurisdiction in respect of the right to fish or to exploit fuels or minerals below the sea bed; (2) territorial enclaves in the rest of the world (clearly demarcated areas of land which are located in other countries and which are used by the government which owns or rents them for diplomatic, military, scientific or other purposes - embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc. - with the formal political agreement of the government of the country in which they are physically located, Goods or persons may move freely between a country and its territorial enclaves abroad, but become subject to control by the government

of the country in which they are located if they move out of the enclave; and (3) any free zones, or bonded warehouses or factories operated by offshore enterprises under customs control (these form part of the economic territory of the country in which they are physically located).

10. The economic territory of an international organisation see <chapter IV, Institutional Units and Sectors>, consists of the territorial enclave, or enclaves, over which it has jurisdiction; these consist of clearly demarcated areas of land or structures which the international organisation owns or rents and which it uses for the purposes for which the organisation was created by formal agreement with the country, or countries, in which the enclave or enclaves are physically located.

11. It follows that the economic territory of a country does not include the territorial enclaves used by foreign governments or international organisations which are physically located within the geographical boundaries of that country.

2. Centre of economic interest

12. An institutional unit is said to have a centre of economic interest within a country when there exists some location - dwelling, place of production, or other premises - within the economic territory of the country on, or from, which it engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time. The location need not be fixed so long as it remains within the economic territory.

13. In most cases, it is reasonable to assume that an institutional unit has a centre of economic interest in a country if it has already engaged in economic activities and transactions on a significant scale in the country for one year or more, or it intends to do so. The conduct of economic activities and transactions over a period of one year normally implies a centre of interest, but the choice of any specific period of time is somewhat arbitrary and it must be emphasized that one year is suggested only as a guideline and not as an inflexible rule.

14. The ownership of land and structures within the economic territory of a country is deemed to be sufficient in itself for the owner to have a centre of economic interest in that country. Land and buildings can obviously only be used for purposes of production in the country in which they are located and their owners, in their capacity as owners, are subject to the laws and regulations of that country. It may happen, however, that an owner is resident in another country and does not have any economic interest in the country in which he owns the land or buildings other than the land or buildings themselves. In that case, the owner is treated as if he transferred his ownership to a notional institutional unit which is actually resident in the country. The notional unit is itself treated as being entirely owned and controlled by the non-resident actual owner, in

much the same way as a quasi-corporation is owned and controlled by its owner. In this way, the rents and rentals paid by the tenants of the land or buildings are deemed to be paid to the notional resident unit which in turn makes a transfer of property income to the actual non-resident owner.

3. The residence of households and individuals

15. A household has a centre of economic interest when it maintains a dwelling, or succession of dwellings, within the country which members of the household treat, and use, as their principal residence. All individuals who belong to the same household must be resident in the same country. If a member of an existing household were to be considered no longer resident in the country in which that household is resident, that individual would cease to be a member of that household.

16. A member of a resident household who leaves the economic territory to return to that same household after a limited period of time (i.e., less than one year) continues to be a resident even if that individual makes frequent journeys outside the economic territory. The individual's centre of economic interest remains in the economy in which the household is resident. The following categories of such individuals are treated as residents:

(1) travellers or visitors: that is, individuals who leave the economic territory for less than one year for recreation, business, health, education see <<paragraph 20>>, religious, or other purposes;

(2) individuals who work some, or all, of the time in a different economic territory from that in which the household to which they belong is resident;

  (a) workers who work for part of the year in another country, in some cases in response to the varying seasonal demand for labour, and then return to their households;

  (b) border workers who regularly cross the frontier each day or somewhat less regularly (e.g., each week) to work in a neighbouring country;

  (c) the staff of international organisations who work in the enclave of those organisations;

  (d) the locally recruited staff of foreign embassies, consulates, military bases, etc.;

  (e) the crews of ships, aircraft, or other mobile equipment operating partly, or wholly, outside the economic territory.

17. The circumstances in which an individual is likely to cease to be a resident are when that individual lives or works continuously for one year or more in a foreign country. If the individual rejoins his or her original household only very infrequently for short visits and sets up a new household or joins a household in the country of work, the individual can no longer be treated as a member of the original household. Most of the individual's consumption takes place in the country in which he lives or works, and the individual clearly has a centre of economic interest there.

18. Even if an individual continues to be legally employed and paid by an enterprise which is resident in his home country, that individual should be treated as resident in the host country if the individual works continuously in that country for one year or more. As explained below, in these circumstances the person has to be treated as being employed either by a quasi-corporation which is owned by the enterprise and which is resident in the country in which the work takes place, or, alternatively, as being employed by a foreign agent. The latter case is intended to cover technical assistance personnel working in a foreign country on contracts or assignments of one year or more. Technical assistance personnel on long-term assignments should be treated as residents of the country in which they work and deemed to be employed by their host government on behalf of the government, or international organisation, which is actually financing their work. A transfer of funds should then be imputed from the government or international organisation which actually employs them to the host government to cover the cost of their salaries and allowances.

19. The situation of military personnel and civil servants, including diplomats, whom a government employs in its own enclaves abroad, is different. Those enclaves - military bases, embassies and the like - form part of the economic territory of the employing government and the personnel often live as well as work in the enclaves. Therefore, the employees whom a government transfers to work in such enclaves continue to have a centre of economic interest in their home country however long they work in the enclaves. They continue to be resident in their home country even if they live in dwellings outside the enclaves.

20. Finally, students should be treated as residents of their country of origin however long they study abroad, provided they continue to form part of a household in that country. In these circumstances, their centre of economic interest remains in their country of origin rather than the country in which they study. Medical patients abroad also are treated as residents of their country of origin even if their stay is one year or more, provided they continue to form part of a household in their country of origin.

4. The residence of corporations and quasi-corporations

21. Corporations and quasi-corporations are said to have a centre of economic interest and to be resident units of a country (economic territory) when they are engaged in a significant amount of production of goods or services there, or own land or buildings located there. They must maintain at least one production establishment there which they plan to operate indefinitely or over a long period of time - a guideline of one year or more is suggested, to be applied flexibly - together with other considerations covered in <<paragraph 22>>. (For a detailed description of corporations, quasi-corporations and other institutional units, see <chapter IV, Institutional Units and Sectors>).

a. Attribution of production

22. Production undertaken by the personnel (and plant and equipment) of a resident unit outside its economic territory is to be treated as part of the production of the host country and the unit treated as a resident unit (branch or subsidiary) of that country if (1) it meets the conditions noted in <<paragraph 21, 91>> and (2) among other considerations, maintains a complete and separate set of accounts of local activities (i.e., income statement, balance sheet, transactions with the parent enterprise), pays income taxes to the host country, has a substantial physical presence, receives funds for its work for its own account, etc. The above considerations also apply to the particular case of construction activity carried out abroad by a resident producer. If they are not present, the activity should be classified as an export of services by the resident enterprise. Production can generate such an export only if the production is classified as domestic production (undertaken by a resident even though the physical process takes place outside the economic territory). Construction involved with major specific projects - bridges, dams, power stations, etc. - that often takes several years to complete, and is carried out and managed by non-resident units through an unincorporated site office in an economy warrants special mention. In most instances, such a site office will meet the criteria that require its production to be treated as a resident unit and to be part of the production of the host economy (as would that of a branch or affiliate), rather than as an export of services to that economy (for further discussion and treatment of installation projects, see <<paragraphs 101-103>>).

23. "Offshore" units engaged in manufacturing processes (including assembly of components manufactured elsewhere) are residents of the economy in which they are located. This statement applies regardless of location in special "zones" of exemption from customs or other regulations or concessions, and also applies to non-manufacturing operations (i.e., trading and financial enterprises), including so-called special purpose units.

b. Units operating mobile equipment

24. The principles concerning the determination of resident units are likewise applicable to units using mobile equipment, such as ships, aircraft, drilling rigs and platforms, railway rolling stock, etc., that operate outside the economic territory in which the units are resident - either in (1) international waters or airspace or (2) in other economies. In the first case (1), these activities should be attributed to the economy of residence of the operator (the same applies if the activity takes place in more than one economy during the course of, but for less than a year). In the second case (2), the unit is a resident of the economy in which the activity (production) occurs, and should be accounted for separately by the operator and so recognized by the tax and licensing authorities there. Otherwise, the activity may be attributed to the country of residence of the original operator. If operations are carried out by a unit on a regular and continuing basis in two or more countries - such as the operation of a railway network - the unit is deemed to have a centre of economic interest in each country and thus separate resident units in each, subject to the qualifications for (2) above. In cases involving the leasing of mobile equipment to one unit by another for a long or indefinite period, the lessee unit is deemed to be the operator and activities are attributed to the country in which the lessee is resident.

25. In the particular case of ships flying flags of convenience, it often is difficult to determine the residence of the operating unit, because of complex arrangements involving the ownership, mode of operation and chartering of such ships, and the fact that the country of registry in most instances is different than the country of residence of the operator (or owner). Nonetheless, in principle, the shipping activity is to be attributed to the country of residence of the operating unit. If that unit establishes a branch (direct investment) in another country to manage the operation, for tax or other considerations, the operation is to be attributed to the resident (branch) of that country.

26. There are certain exceptional cases in which it may be difficult to determine the residence of a unit which operates mobile equipment because it consists of a corporation which is established by special legislation by two or more governments acting jointly and which is registered in each of the countries concerned. There are two possible ways of treating such units. One is to allocate all of the transactions to each of the countries concerned in proportion to the amounts of financial capital which they have contributed, or in proportion to their shares in the equity of the corporation. Another possibility would be to treat the corporation as resident in the country in which its headquarters are located and to treat the premises of the corporation in the other countries as foreign branches (direct investment enterprises, see <<paragraph 153>>) which are resident in the country in which they are located. On balance, the first method is preferable, but both ways of treating such corporations are consistent with the general principles of both the System and the Balance of Payments Manual

and the choice between them may be made on the basis of statistical convenience, with reference to consistent treatment by partner countries.

27. In the case of agents, a transaction should be attributed to the economy of the principal on whose behalf a transaction is undertaken and not to the economy of the agent representing or acting on behalf of that principal. However, the services rendered by the agent to the principal represented should be attributed to the economy of which the agent is a resident.

5. The residence of non-profit institutions

28. A NPI is resident in the country or economic territory in which it has a centre of economic interest, in most instances coinciding with the country under whose laws and regulations it was created and in which its existence as a legal or social entity is officially recognized and recorded. In practice, the residence of the vast majority of NPIs may be determined without ambiguity. However, when an NPI is engaged in charity or relief work on an international scale, it is necessary to specify the residence of any branches it may maintain in individual countries in dispensing relief. If an NPI maintains a branch or unit for one year or more in a particular country, that branch or unit should be considered as a resident NPI of that country, financed largely or entirely by transfers from abroad.

6. General government

29. The general government agencies that are residents of an economy include all departments, establishments, and bodies of its central, state, and local governments located in its territory and the embassies, consulates, military establishments, and other entities of its general government located elsewhere. (For a detailed description of general government, see <<paragraphs 113-130 of chapter IV, Institutional Units and Sectors>>).

30. Embassies, consulates, military establishments, and other entities of a foreign general government are to be considered as extraterritorial by the economy in which they are physically located. The construction of embassies, structures, and other works in extraterritorial enclaves by resident producers of the economy in which the enclaves are located is part of the production and exports of that economy. Wages and salaries paid to locally recruited staff of foreign diplomatic, military, and other establishments are payments to residents of the economy in which these establishments are located.

31. International organisations (see <<paragraphs 163-164 of chapter IV, Institutional Units and Sectors>>) are not considered residents of any national economy, including that in which they are located or conduct their affairs. They are treated as extraterritorial by that economy. (However,

pension funds operated by these bodies are treated as residents of the economy in which the organisation is located.) The employees of these bodies are, nevertheless, residents of a national economy, specifically, of the economy in which they are expected to have their abode for one year or more. In most cases, that economy will be the one in which the given international unit is located or in which the employees are engaged in technical assistance or other activities on behalf of the international organisation. It follows that the wages and salaries paid by the international organisations to their own employees are payments to residents of the economy in which those employees are stationed for one year or more. (For details concerning technical assistance personnel, see <<paragraph 18>>).

32. In contrast, corporations or quasi-corporations that are owned jointly by two or more governments are not treated as international bodies but are, like other corporations, considered to be residents of the economies on whose territories they operate.

7. Regional central banks

33. A regional central bank is an international financial institution which acts as a common central bank for a group of member countries. Such a bank has its headquarters in one country and maintains national offices in each of the member countries. Each national office acts as the central bank for that country and must be treated as a separate institutional unit from the institution's headquarters. Each national office is a resident unit of the country in which it is located. The financial assets and liabilities of a regional central bank should be allocated among the national offices in proportion to the claims which they have over its collective assets.

8. Individuals with multiple international residences

34. As to the treatment of individuals who have several international residences, where they may remain for short periods of time during a given year (for instance, three months in each of four countries), the centre of economic interest for such individuals often is "international," not a specific economy. Considerations should be given to such factors as tax status, citizenship (can be dual), etc. but the System does not recommend a specific treatment. The latter is left to the discretion of the economies concerned; the treatment should be coordinated, if possible, to foster international comparability.

C. General Accounting Rules

1. Valuation

35. Market price is the basis of valuation in the Rest of the World Account for both transactions in (flows of) goods and services, in income distribution and redistribution, and in financial assets and liabilities, and for stocks of assets and liabilities. Thus, transactions are to be valued at the actual price agreed upon by transactors, while stocks of assets and liabilities are to be valued at current prices at the time to which the Balance Sheet relates. (For instances where application of the rule may be difficult to implement, see below).

a. Goods

36. Exports and imports of goods should be recorded at the market value of the goods at the point of uniform valuation, (the customs frontier of the economy from which they are exported), i.e., the goods are valued f.o.b. (free on board) at that frontier. The value includes that of the goods and of the related distributive services up to that point, including the cost of loading on to a carrier for onward transportation, where appropriate.

37. Conceptually, the f.o.b. price can be regarded as the purchaser's price that would be paid by an importer taking delivery of the goods after it has been loaded on to his own carrier, or other carrier, at the exporter's frontier after payment of any export taxes or the receipt of any tax rebates. This method of valuation implicitly determines the boundary between exports of goods and exports of services in the System and in balance of payments statistics. The costs of transporting exported goods up to the frontier are treated in the same way as other production costs and hence are an integral part of the costs of delivering the goods at the required location. In general, the purchaser's price for a good is an inclusive measure of the value of a good at a particular location which treats the costs of transportation no differently from other production costs. If, therefore, the transportation up to the frontier is actually carried out by a resident other than the producer or manufacturer, the transportation costs have to be added to the price received by the producer and included in the value of the goods exported. In principle, the transportation should be treated as an intermediate input into the complete process of production which terminates when the exported goods are delivered at the required location. Even if the transportation up to the frontier of the exporting country is actually carried out by the importer or other non-resident, the costs should nevertheless still be included in the value of the goods exported. Although the importer may be transporting his own goods and hence not engaging in transactions with foreigners in respect of this activity, it is necessary to recognize the transportation costs by imputing the purchase of transportation services by the exporter and increasing the price actually received by the exporter accordingly. In this way, the

imputed f.o.b. price recorded for the goods minus the imputed import of transport services will equal the actual price received by the exporter, so that the balance between exports and imports of goods and services is the same whether or not the imputation is made. In general, however, it is desirable that the f.o.b. price should not be affected by the way in which transportation up to the frontier of the exporting country is organised or paid for.

38. Imports as well as exports of goods are to be valued f.o.b. in the System: In other words, imports are also to be valued at the customs frontier of the exporting country. Valuing exports and imports in the same way promotes consistency in the recording of trade flows at a world level and enables trade balances in goods to be shown correctly. The use of f.o.b. values for imports implies that the costs of transporting imports of goods after they have left the frontier of the exporting country have to be treated as imports of services when the transport is provided by non-resident carriers. When the goods are transported from the frontier by resident carriers there are no service imports as there are no transactions with non-residents.

39. In practice, importers may take delivery of the goods which they import at any convenient location which will not always coincide with the point at which they are valued for purposes of recording exports and imports in the accounts of the System. Importers need not take delivery at a frontier: They may take delivery inside their own country or possibly inside the exporting country or even in a third country. Moreover, the costs of transportation, together with the costs for storage, loading and insurance, as well as the movement of the goods, may initially be incurred wholly or partly by the exporter, wholly or partly by the importer, or by some third party. Thus, there are many different ways in which international trade in goods may be organised, so that the transactions which actually take place between residents and non-residents may sometimes require re-arrangement or manipulation to get them into the format required by the System.

40. In the case of most exports, it should be possible to derive the f.o.b. price with reasonable accuracy from the prices or values recorded in customs documentation submitted at the frontier, or similar documentation submitted to other administrative agencies. In the case of imports, however, the customs documentation or other administrative records often provide information on the c.i.f. (costs, insurance, freight) price rather than the f.o.b. price. Conceptually, the c.i.f. price can be regarded as the purchaser's price that would be paid by an importer taking delivery of the good at his own frontier, before paying any import duty or other tax levied at the frontier. The difference between the c.i.f. and the f.o.b. price represents the costs of transportation, together with insurance charges, between the customs frontier of the exporting country and that of the importing country. This difference varies according to the country of origin of the exports and may be quite substantial when the exporting and importing countries are at some distance from each other. In practice, it

is usually difficult to convert from recorded c.i.f. prices to estimated f.o.b. prices for individual imports or categories of imports, so that adjustments can often be made only globally for large groups of imports or even total imports. Estimates of transport and insurance costs (see services below) between the frontiers of the exporting and importing countries can be made from a knowledge of average freight charges, insurance rates, average distances travelled, etc. for large groups of exports. Sample surveys of trade invoices also provide information on c.i.f./f.o.b. ratios which may be used to estimate the global adjustment needed to the c.i.f. value of imports (see Balance of Payments Compilation Guide, IMF).

41. Thus, while total imports of goods must be recorded f.o.b. in the System, the extent to which it may be feasible to desegregate imports valued f.o.b. by type of good or country of origin is uncertain in practice. It may be much easier for some countries than others, but many countries find it difficult, if not impossible, to provide detailed figures of imports valued f.o.b. For this reason, it is sufficient for purposes of the System to record total imports f.o.b., together with the value of associated transportation costs, included under services.

42. In the input-output tables of the System, including the tables which display the supply and use of goods and services at a detailed level, it may only be feasible to show detailed figures of imports c.i.f. In such tables, however, there may be analytical advantages to be derived from valuing imports c.i.f. The input-output and supply and use tables also contain the information of transportation and insurance costs needed to make the transition from the sum of detailed imports of goods valued c.i.f. to total imports of goods valued f.o.b. A global c.i.f./f.o.b. adjustment for imports is made in these tables.

43. There are circumstances under which a market price for goods in the above sense may not easily be determined, such as a barter exchange of goods, transactions between affiliated enterprises (which often involves "transfer pricing"), or goods transferred under a financial lease arrangement where a legal change of ownership does not actually occur. Under such circumstances, it may be necessary to develop proxies, or substitute measures, for market prices. For example, a barter exchange of commodities between two parties should be valued at the basic prices that would have been received if they had been sold. However, such an approach must be limited to those transactions to which it is readily applicable. Likewise, the substitution of an imputed or notional market value for an actual transfer value in the case of goods transactions between affiliated enterprises should be the exception rather than the rule because of both conceptual and practical difficulties involved. In any event, if it is determined that certain transfer prices are so divorced from those of similar transactions that they significantly distort measurement, they should, if possible, be replaced by a market price equivalent or, if not, be separately identified for analytical purposes (see Balance of Payments Manual).

b. Services

44. Exports and imports of services are to be valued at market prices as defined above, that is, the actual price agreed upon, subject to the above-mentioned limitations. Two specific service components warrant special mention as to valuation: insurance services and financial services. International insurance services are valued by the amount of service charges included in total premiums earned, not by the total premiums themselves. Also, by convention because of data constraints, estimates of the insurance service charge in the External Account of Goods and Services ignore investment income on technical reserves. As for international financial services, in addition to explicit commissions and fees, there are "financial intermediation services indirectly measured", derived from and valued according to the difference between an appropriate reference interest rate and the interest rate actually paid by borrowers on loans or debt securities or that received on deposits (see exports and imports of goods and services below).

c. Primary incomes

45. Primary income payments and receipts are valued at the current or market price. For investment income, holding gains and losses are excluded in that they are not considered to be part of the income on investment but rather to be part of the value of investments included under revaluations in the Other Changes in Assets Accounts. Any income in kind included in compensation of employees is valued at purchasers' prices when the goods and services involved are purchased by the employer, and at basic prices when produced by the employer.

d. Transfers

46. One type of transaction that, by definition, is non-commercial and thus has no market price, is the provision of economic values whose offset constitutes a transfer. For resources transferred by government, NPIs, or individuals of an economy to non-residents without a quid pro quo, the same values must be reflected in the external transactions accounts of both the recipient and the donor. Such resources should be valued at the basic prices that would have been received if they had been sold. Such imputations may not always approximate the desired basis of valuation, often because the values of these transactions as they appear to the donor may be quite different from those that the recipient would be inclined to impute. Thus, it is suggested that, as a rule of thumb, the values assigned by the donor be used as a basis for recording.

e. Financial items

(See also <chapter XI, The Financial Account>.)

47. Changes in financial assets should be recorded in the external Financial Account at the prices at which the assets are acquired or disposed of. For financial items that are traded in an organised market, with the buyer and seller dealing with each other through an agent, the price established in the market - which will probably be the one that is recorded in the statistics in any case - will meet the definition of a market price for purposes of the Rest of the World Account. For financial items not traded in the market, however, the application of the concept of market price may not be so apparent. In fact, cash items, i.e., currency and transferable deposits that can be redeemed on demand, at their nominal value, have only one value which could be assigned for any purpose, so that this value could be regarded as the actual market price. The market price that is to be imputed to non-marketable financial items, which are primarily loans in one form or another, is their nominal value. However, if a secondary market in such items is created, and they become marketable - often, as in the case of loans to some heavily debt-burdened countries, at substantial discounts from nominal value - that market price should be recorded for transactions in such loans. Valuation of financial items in the external Financial Account should exclude any service charges, fees, commissions, or income, which should be recorded in the appropriate component of the External Account of Goods and Services.

f. Stocks of assets and liabilities

(See also <chapter XIII> and section G.2 of this chapter.)

48. In principle, all stocks of external assets and liabilities that comprise a country's external Balance Sheet or international investment position should be measured at current market prices, as of the date involved, i.e., the beginning or end of the reference period. This concept assumes that such stocks are continuously (regularly) revalued at current prices - e.g., by reference to actual market prices for financial assets such as shares and bonds, or by reference to enterprise Balance Sheets in the case of direct investment.

49. For those financial items (e.g., shares and other equity securities other than shares, etc.,) included in the category of direct investment (see <<paragraphs 152-154>>) in the Balance of Payments Manual, it is recognized that, in practice, book values from the Balance Sheets of direct investment enterprises (or of direct investors) generally are utilized to determine the value of the stock of direct investment. These balance sheet values, if on a current market value basis, would be in accordance with the principle. If based on historical cost or on an interim but not current revaluation, they would not conform to the principle, and thus market prices may have to be estimated or approximated (see <<paragraph 159>>). However, because balance

sheet values of enterprises often represent the only basis of valuation available in most countries, the Balance of Payments Manual recommends that they maybe utilized to determine the value of the stock of direct investment both for individual economies and for international comparisons, and that it would be desirable to have such data also collected and available on a current market value basis.

50. Investment in other equity securities, debt securities, and financial derivatives is to be valued at current market prices at the appropriate reference date (for details, see <chapter XIII, Balance Sheet>).

51. Those financial items that are not readily transferable among transactors - e.g., loans, deposits, miscellaneous accounts receivable and payable - are to be recorded at nominal value (as, of course, is currency). In recent years, loans to a number of heavily-indebted countries often have been subject to significant discounts quoted in secondary markets that emerged for the trading of such debt, bringing into question the valuation of these loans. While the secondary market quotations should be the basis of valuation of transactions, nominal value is to be recorded in the Balance Sheets of both creditors and debtors, i.e., the amounts of principal that the debtors are contractually obliged to repay the creditors when the loan matures, until and/or unless there is

(1) an exchange of such loans for equity (i.e., debt/equity swap), in which case two transactions are recorded in the financial accounts, one in loans and one in shares and other equity, valued at the (lesser) value of the equity obtained, with the difference between the nominal value of the loan and the (lesser) value of the equity obtained treated as a holding gain/loss;

(2) forgiveness of the loans, where a capital transfer offsets the reduction of the debtor's liability and the position is reduced on the liability side;

(3) a rescheduling of the loan, so that a new arrangement in effect replaces the old loan, with the new loan's nominal value to be the basis of valuation and a holding gain/loss recorded if the new nominal value is less than the old value; or

(4) a unilateral cancellation of the loan by the creditor, to be recorded in the Other Changes in Volume of Assets Account.

52. Monetary gold and Special Drawing Rights (SDRs) issued by the IMF are financial assets for which there are no outstanding financial liabilities. Monetary gold is to be valued at the prevailing price in organised markets or in bilateral arrangements between authorities, and SDRs are to be valued at market exchange rates of a weighted basket of currencies calculated daily by the IMF.

2. Time of recording

53. The general principle governing the time of recording transactions in the System (including the rest of the world) is that of accrual accounting, i.e., the time when economic value is created, transformed, exchanged, transferred, or extinguished. Claims and liabilities are deemed to arise when there is a change in ownership, either a legal change or one involving a change in control or possession (physical or economic change), e.g., goods shipped under financial lease arrangements and certain transactions between parent enterprises and their branches or affiliates. An exchange of resources involving a change in ownership entails the recording of the two sides of the transaction in the Rest of the World Account. In accordance with the double-entry system, in principle there should be simultaneous recording of the two sides - first the provision of one resource accompanied by the acquisition of a financial claim on the recipient of the resource, and subsequently, the extinguishment of the claim by the provision of another resource.

54. The time of change of ownership may not coincide with the various stages of the contractual process - i.e., the time of contract or commitment (contract date), the time of provision of goods or services and acquisition of a claim for payment (transfer date), or the time of settlement of that claim (payment date). In practice, when a change in ownership is not obvious, it is considered to occur at (or is proxied by) the time the parties to the transaction record it in their books or accounts. However, simultaneous recording of the two sides to the transaction may not be achieved, because the entries may be derived independently from different sources and accounting records, and conventions for time of recording for participants in the transaction may differ (see below).

a. Goods

55. In line with the general principles adopted in the System, the exports and imports of goods should be recorded at the time at which ownership of the goods in question passes from a resident to a non-resident, or vice versa. This principle is sufficient to determine the coverage of international trade in goods, but in practice certain exceptions, which are specified below, are made to the principle, at least when ownership is interpreted in a strict legal sense. In any case, it is useful to indicate how the coverage of international trade in goods between resident and non-resident units relates to international trade in the sense of actual movements of goods between countries. When the ownership of a good is exchanged between a resident and non-resident, there is a strong presumption that the good will cross the frontiers of the countries concerned either shortly before, or soon after, the change of ownership takes place, but not all exports and imports do so. Conversely, many goods cross frontiers without any change in ownership taking place, so that they are not to be counted as exports or imports. It is therefore useful to specify the different coverage of the flows in some detail.

56. Statistics of international trade in goods in most countries rely heavily on customs documentation submitted at the time goods are cleared at the frontier. This constitutes a further reason for clarifying the differences between the coverage of exports and imports as defined in the System and the actual physical movements of goods between countries. However, it should also be noted that when countries belong to a free trade area, customs union or common market, most goods may cross the frontiers between different member countries without any kind of customs clearance or documentation at the frontier and quite different methods of recording exports and imports may be required. Some kind of documentation may still be needed for customs or tax purposes but it may be submitted to a central office within a country instead of being cleared at the frontier. Alternatively, or in addition, direct enquiries may be made to exporters or importers or records of foreign exchange transactions may be utilized. It should not be assumed, therefore, that documentation submitted at a frontier invariably constitutes the principal source of data on exports or imports.

(i) Exceptions to the change of ownership principle

57. Before indicating the differences between exports and imports as recorded in the accounts and the physical movements of goods across frontiers, it is necessary to specify the exceptions which the System itself makes to the change of ownership principle when the latter is interpreted in a strict legal sense. There are four main types of exception.

58. The first exception concerns goods which are the subject of a financial lease. The System imputes a change of ownership from lessor to lessee when a financial lease is arranged even though legally the leased good remains the property of the lessor, at least until the termination of the lease when legal ownership of the good is usually transferred to the lessee. The rationale for imputing a change of ownership is that the lessee assumes all the rights, risks and responsibilities of ownership in practice, so that from an economic point of view the lessee can be regarded as the de facto owner. The financial lease is essentially a method of financing the imputed purchase of the good by the lessee which can be used instead of taking out a loan for this purpose. The System therefore imputes a change of ownership at the start of the lease and this treatment is adopted throughout the System and not merely for international leasing. When a good is exported (imported) under a financial lease, the amount recorded as an export or import should be based on the purchaser's price paid for the good by the lessor and not on the cumulative value of the rental payments. The transaction should be recorded when the lessee takes possession of the good, (the time of commencement of the lease), although the time at which the good crosses the frontier may be used as a proxy for this if necessary. This treatment requires that a loan from the lessor to the lessee should also be imputed in the Financial Account.

59. The second exception to the change in ownership principally concerns goods shipped by an enterprise to a branch or subsidiary which it owns in a

foreign country or to a foreign affiliate which belongs to the same group of enterprises as the exporter. Legally, the ownership of the goods may remain unchanged in such circumstances, but a de facto change of ownership is imputed between the exporting enterprise and the foreign branch or subsidiary whenever goods are shipped between affiliated enterprises. The rationale for this treatment is similar to that for financial leasing, namely that from an economic point of view ownership rights and responsibilities are effectively exercised by the enterprise which receives the goods. The time of recording is when entries are made in the books or accounts of the enterprise concerned.

60. The third exception is one in which a change of ownership may occur but is ignored in the accounts. The exception relates to merchants or commodity dealers who buy commodities or other goods from non-residents and then sell them again to non-residents within the same accounting period without the commodities actually entering the economy in which the merchants are resident. The difference between the receipts and the sales of such dealers is treated as measuring the value of the services they provide and recorded under exports or imports of services. If, however, the goods are not resold within the same accounting period, the purchases have to be recorded as imports of goods which are temporarily held in inventory; when they are sold abroad in a later period they should be treated as negative imports.

61. The fourth and final exception to the change in ownership principle relates to goods which are sent for processing abroad. In general, the principle adopted in the System is that goods sent abroad temporarily without change of ownership between resident and non-resident units are not to be counted as exports or imports. Goods sent abroad temporarily are to be understood as goods which return in more or less the same condition as they left, apart possibly from any maintenance, servicing or routine repairs carried out on them. However, these conditions are not satisfied when an enterprise engages or contracts with another enterprise to carry out certain manufacturing processes on it goods abroad. In this case, the enterprise may ship materials or semi-processed goods abroad, which become inputs into the foreign manufacturer's production processes, and then receive back the outputs from these processes, paying the manufacturer a fee for the production carried out. In these circumstances, the goods originally sent abroad lose their identity by being transformed or incorporated into other goods: Similarly, the goods received back are essentially new goods produced abroad. The goods received back may well be classified quite differently, by customs authorities and in international trade statistics, from those which were sent. In these circumstances, the System requires that the goods sent abroad be recorded as exports, even though they may not be sold to a non-resident, while the goods received back are recorded as imports, even though they were not purchased from a non-resident.

62. Essentially, the treatment of processing involves two issues - whether to record certain flows on a gross or a net basis, and whether to classify those flows as goods or services. If the goods are excluded from exports

and imports on the grounds that there has been no change of ownership, then it becomes necessary to identify and record separately as the import of a service the payment which the enterprise makes to the foreign producer for the value added by his processing. If, on the other hand, the flows are recorded gross, as the System requires, the difference between the value of the imports and the value of the exports should be equal to the payment made for the service provided by the foreign processor. The balance between total exports and imports of goods and services is the same in either case, the difference being whether the balance appears as a net import of goods or a net import of services.

63. When goods are sent abroad temporarily to return in the same form as they left without change of ownership, their leaving the economy has no impact on the domestic economy and can therefore be ignored in the accounts. However, when the goods which return are different in form from those which left, the supply and disposition of goods or resources within the economy which sent the goods abroad for processing are changed and for this reason the export and import of the goods concerned cannot be ignored. Another relevant consideration is that it is often difficult to separate goods sent out for processing, and those returned after processing, from other movements of goods in records of international trade flows, so that the gross treatment required by the System is usually easier to implement in practice. However, when it is actually feasible to identify in the trade statistics goods intended for processing abroad and returned after processing, it is recommended that they should be shown separately in both exports and imports in the External Account for Goods and Services in the System. When goods sent abroad for processing in one accounting period are not re-imported until a later accounting period, it may be necessary to enter a counterpart financial claim (liability) in the financial accounts of the countries concerned.

64. When goods are returned after only a very small amount of processing abroad, such as storage or packaging, it can be argued that the net treatment should be adopted on the grounds that the processing is insignificant, so that it is preferable to record the small amount of value added abroad as an import of a service. It is difficult, however, to provide objective criteria as to what constitutes a significant amount of processing which would make it possible to delineate certain kinds of processes from others. It is suggested, therefore, that goods should be treated as being processed when the goods from abroad have to be classified in a different Group (3 digit level) of the Central Product Classification (CPC) from the goods sent abroad out of which they have been processed. On the other hand, when the goods returned fall in the same Group of the CPC as the goods sent abroad, they should not be included in exports and imports of goods, the processing treated as a service activity.

(ii) Timing in relation to physical movements of goods

65. For various reasons, the flows of goods which leave and enter a country within a given accounting period are not identical with the exports and imports which need to be recorded in the accounts. One reason why they may differ is simply that the time at which the ownership of a good changes, or is deemed to change, from a resident to a non-resident or vice versa, is often not the same as the time at which the good is transported from one country to the other. Transportation may precede, or lag behind, the change of ownership by varying lengths of time. Moreover, because time elapses between a good leaving one country and arriving at the other country, it is impossible for the change in ownership to coincide with both the time of departure and the time of arrival. If the time at which a good crosses a frontier is used as a proxy for the time at which ownership changes, discrepancies are likely to be created between the values of exports and imports and other items in the national accounts such as sales, purchases and changes in inventories as reported by producers. Such discrepancies are unavoidable if statistics on physical movement of goods across frontiers are the principal source of data for estimating exports and imports. Discrepancies of this kind which are due to differences in timing tend to become relatively more important the shorter the accounting period, and they may be a significant source of error in quarterly accounts, especially for countries whose foreign trade is large in relation to domestic production. When the estimates of exports and imports are based on direct enquiries to producers, the incidence of such discrepancies may be less.

66. A further problem is that exporters and importers of goods may not perceive the change of ownership as taking place at the same moment of time. When there is a firm sales contract, the exporter may record the change of ownership in his accounts as occurring when the goods are dispatched, whereas the importer may not acknowledge change of ownership until signing and accepting the relevant import documents (generally at the time the importer takes possession of the goods). While such differences may not introduce any discrepancies between the recording of different items within the domestic accounts of each of the countries concerned, they may introduce asymmetries into the recording of international trade flows at a world level.

67. A probable need for a timing adjustment to trade statistics arises from a failure of the statistics themselves to reflect physical movements correctly in all cases, although some systematic defects of that sort would not create noticeable errors unless the value of trade changed sharply from period to period. Such a need, for example, arises when compilers of trade accounts cut off each month's statistics before all customs declarations have been tabulated, leaving a residue to fall into the next month. When practices of this sort lead to distortions, the amounts should be estimated and timing adjustments applied.

68. The change of ownership of goods can occur at times widely different from the recording of those goods in trade statistics when a lengthy voyage

forms part of the process of importing or exporting. If the volume or unit value of trade changes substantially from the beginning to the end of the reporting period, the possible difference of one or two months between the shipment or receipt of goods, on the one hand, and the change of ownership, on the other hand, can be a source of error in the statement for a given country and of asymmetries between partner countries. No empirical basis has been established for presuming that ownership normally changes either at the beginning or the end of a voyage; enquiries, perhaps on a sample basis, are required to ascertain specific practice, and timing adjustments should in principle be applied to correct the trade statistics for those classes of goods that are found to change ownership at a time other than that at which they are recorded in the trade statistics.

69. Goods on consignment, i.e., goods intended for sale that have not actually been sold at the time they cross the frontier, should in principle be included in merchandise only at the time ownership changes. Such goods are often recorded instead at the time that they cross the frontier, on the assumption that a change of ownership has occurred or in the expectation that a change will shortly occur. If that treatment is followed but there is no change of ownership, the goods will subsequently have to be recorded again as a deduction from exports and imports.

b. Services

70. The time at which the export or import of a service is to be recorded is the time at which it is rendered (delivered or received), which mostly coincides with the time at which the service is produced. In some instances (e.g., freight and insurance, port services, etc.), as may be the case with trade in goods, there may be pre-payments or post-payments for such services. Entries in the appropriate accounts should then be made as explained in <<paragraph 75>>. For processing and repairs excluded from goods, the value added is to be recorded as services at the time performed.

c. Primary incomes

71. Income in the form of interest is to be recorded on an accrual basis, i.e., a continuous method of recording which matches the cost of capital with the provision of capital (see <chapter III, Stocks, Flows and Accounting Rules> for discussion). If the interest is not actually paid, an entry is required in the External Account of Primary Incomes and Current Transfers, together with an offsetting entry in the Financial Account for the claim associated with non-payment, i.e., an increase in liabilities.

72. Dividends are to be recorded as of the moment they are payable. Reinvested earnings on direct foreign investment are to be recorded in the period when they are earned. Distributed (remitted) earnings of branches and other unincorporated enterprises, i.e., withdrawals from income of quasi-corporations, are to be recorded as of the time that they are

transferred. In explanation of this difference in time of recording between earnings that are formally distributed and other earnings, it should be noted that reinvested earnings represent the net income accruing during a given period. In contrast, remitted earnings of branches are discretionary distributions that can be made at any time - even in a period when a net loss is sustained - and, therefore, are not attributable to the earnings of a particular period. To determine the period in which those reinvested earnings are earned or other investment income becomes payable, reference to balance sheets, annual reports, and similar documents of the direct investor or the enterprise may be helpful.

d. Transfers

73. Various taxes, fines, etc., and other components of transfers that are imposed by one party on another are to be recorded at the moment at which the underlying transactions or other flows occur which give rise to the liability to pay. Other transfers are to be recorded at the time that the resources (e.g., goods, services, financial items) to which they are offsets change ownership.

e. Financial transactions

(See also <chapter XI, The Financial Account>.)

74. The time at which external transactions in financial items is considered to take place for purposes of recording is when there is a change of ownership of the financial assets involved. If both the creditor and debtor enter the claim and liability, respectively, on their books at the same time, i.e., a date (the "value date") is actually specified. For the very purpose of ensuring that the timing agrees in the books for both parties, that would be an appropriate time of change of ownership If no precise date can be fixed, the date on which the creditor receives payment is decisive. Loan drawings are to be entered in the accounts when actual disbursements are made; loan repayments are to be entered when due for payment. In the case of overdue repayments, entries are to be made (1) for the repayment (overdue) of the contractual obligation involved as if it were made and its replacement by a new liability that is short-term (for immediate payment), or (2) if under rescheduling or other special financing arrangements associated with balance of payments difficulties of an economy, replacement by a new loan.

75. Recording trade in goods and other current external transactions on a change of ownership basis requires that timing differences between the flow of goods, services and income, and the corresponding flow of payments should give rise to corresponding claims and liabilities, i.e., payments made in advance of change of ownership (pre- or progress-payments) represent a claim on the payee; payments made subsequent to the change of ownership (post-payments) represent the extinguishing of a liability incurred at the time of

change of ownership. In other words, when the counterpart to a financial transaction is a non-financial transaction, the entries should be recorded when the non-financial transaction occurs, i.e., the time of recording of financial claims is to be aligned with the time of recording those non-financial transactions that generate the financial claim. For example, when exports of goods or services give rise to a trade credit, an entry in the Financial Account should be made at the time when the entry is made in the relevant component of the External Account of Goods and Services.

76. The time of recording stocks of external financial assets and liabilities (the international investment position) is at the moment to which the account relates, typically the beginning or the end of the accounting period.

3. Conversion and the unit of account

77. The compilation of the Rest of the World Accounts is complicated by the fact that the values of transactions in resources and financial items and of the components of the stocks of external financial assets and liabilities may be expressed initially in a variety of currencies or in other standards of value, such as SDRs or European currency units (ECUs). The conversion of these values into a reference unit of account (i.e., the national currency of the compiler) is a requisite for the construction of consistent and analytically meaningful statements.

78. In concordance with the principles of time of recording and of valuation both in the System and in the Balance of Payments Manual, the appropriate exchange rate to be used for conversion from a transactions currency into a unit of account is the rate prevailing at the transaction date, or if that is not available, the average rate for the shortest period applicable. The midpoint between buying and selling rates should be used so that any service charge - the spread between the midpoint and those rates - is excluded.

79. For conversion of data on stocks of external financial assets and liabilities, the market exchange rate prevailing on the date to which the Balance Sheet relates is to be used, i.e., the midpoint between the buying and selling spot rate.

a. Multiple exchange rates

80. Under an official multiple exchange rate regime, i.e., when two or more exchange rates are applicable to different categories of transactions, favouring some and discouraging others, those rates incorporate elements similar to those of taxes or subsidies. Thus, because the multiple rates influence the undertaking of and values of transactions that are expressed in national currency, the net proceeds implicitly accruing to the authorities as a result of these transactions are to be calculated as

implicit taxes and subsidies in the System. The amount of the implicit tax or subsidy can be calculated for each transaction as the difference between the value of the transaction at the actual exchange rate applicable and at a "unitary rate", calculated as a weighted average of all official rates used for external transactions. The System records external transactions using the actual rate applicable to specific transactions. However, implicit taxes/subsidies appear as global adjustments in the Rest of the World Account with counterpart entries in the central bank or government accounts.

81. The "unitary rate" approximates a single official rate that would exist in the absence of multiple rates. However, because this single calculated rate may not approximate any sort of equilibrium or market rate, the calculated implicit taxes/subsidies may not fully reflect the impact of a multiple rate system.

82. As to conversion of stocks of external financial assets and liabilities in an official multiple rate system, the actual exchange rate applicable to specific assets or liabilities is to be used.

b. Black or parallel market rates

83. Until this point in the discussion of multiple exchange rates, no mention has been made of (unofficial) parallel or black market rates. The latter rates cannot be ignored in the context of a multiple rate regime and can be treated in different ways. For instance, if there is one official rate and a parallel market rate, the two should be handled separately, with transactions converted at the exchange rate for each. If there are multiple official rates together with a parallel rate, the two should be treated as distinct markets in any calculation of a unitary rate. That is, the multiple official rates - which involve implicit official taxes and subsidies - should be used to calculate a weighted average rate that can serve as the basis for estimating the tax or subsidy component of the various official rates. Transactions effected at the parallel rate should be converted at that rate separately, whether such transactions are legal or illegal. No implicit taxes/subsidies are involved in parallel markets.

84. The midpoint between buying and selling rates in the parallel market should be calculated (separately from official rates) for conversion, as is recommended for official rates, so that any service charge is excluded. (Revenues obtained from trading currencies between official and parallel markets are to be treated as holding gains).

D. The External Accounts of Goods and Services and of Primary Incomes and Current Transfers

85. The External Account for Goods and Services has on the resources side the flows "imports of goods" and "imports of services," which collectively represent the output of the rest of the world acquired by the total economy and conversely, on the uses side, that part of the output of the total economy, (represented by the flows "exports of goods" and "exports of services") provided to the rest of the world. These flows also have their counterpart entries in the Goods and Services Account. The External Account of Goods and Services has a balancing item called "external balance of goods and services." If the balance is positive, it represents a surplus on transactions in goods and services for the rest of the world and conversely a deficit for the total economy, and vice-versa if the balance is negative.

86. The External Account of Primary Incomes and Current Transfers covers, on the resources side, as receivables by the rest of the world (payables by the total economy), and, on the uses side, as payables by the rest of the world (receivables by the total economy): (1) compensation of employees, (2) property income (including reinvested earnings on foreign direct investment), (3) taxes minus subsidies on production and imports, (4) current taxes on income, wealth, etc., (5) social contributions and benefits, and (6) other current transfers. Items (1) through (3) are reflected in the Primary Distribution of Income Account and items (4) through (6) are reflected in the Secondary Distribution of Income Account in respect of the institutional sectors, as well as the accounts for the total economy.

87. Together with the external balance of goods and services, the transactions in items (1) through (6) yield a balancing item "current external balance." When this balance is positive, it signifies a surplus of the rest of the world on current transactions with the total economy (a deficit of the total economy), while a negative balance denotes a deficit of the rest of the world on current transactions (a surplus of the total economy). As items (1) through (6) feature in the Primary and Secondary Distribution of Income Accounts of the various institutional sectors and the nation as a whole, they affect, respectively, the resultant measures of primary income and national income and of sector and national disposable income and saving.

1. The External Account of Goods and Services

88. Exports of goods and services consist of sales, or gifts or grants, of goods and services from resident to non-residents, while imports consist of purchases, or receipts of gifts or grants, of goods and services by resident from non-residents. The treatment of exports and imports in the System is generally identical with that in the balance of payments accounts as described in the Balance of Payments Manual, to which reference may be made for further elaboration on the points made here.

89. International transactions in services differ in many respects from those in goods. As explained in <chapter VI, The Production Account>, the production and the delivery of a service is usually a single operation carried out by mutual agreement between producer and consumer, which requires some kind of prior contact between them. As a result, the organisation of international trade in services is quite different from trade in goods. Goods are typically produced in advance of any contract of sale and may be transported over considerable distances from their original place of production to be sold long after they have been produced, whereas services are typically delivered directly from producer to user when they are produced. Thus, international trade in services is not only different in character from trade in goods but may have different implications for economic analysis and policy making. For this reason, and also because of the growing importance of international trade in services, exports and imports of goods and services are considered and classified separately from each other.

90. However, the boundary between them is not always clear cut in practice, as a single transaction may sometimes cover elements of both. For example, in the External Account of Goods and Services of the System, exports and imports of goods are valued f.o.b - that is, including the costs of transportation and insurance up to the border of the exporting country - even though in other contexts, such as input-output tables, the costs of transportation and insurance may be shown separately from the producer's or basic price of a good as it leaves the premises of its producer. Conversely, other transactions involving a mixture of goods and services, such as expenditures by foreign travellers in the domestic market, may all have to be recorded under services in the Rest of the World Account.

a. Goods

91. Apart from discrepancies due to the fact that the physical movements of goods across frontiers may not coincide with the times at which changes of ownership occur, as previously mentioned, there are also differences in coverage between exports and imports of goods as recorded in the System and the flows of goods across frontiers.

(i) Examples of goods which may be sold as exports or purchased as imports without crossing the country's frontier

(1) transportation equipment or other movable equipment not tied to a fixed location which therefore need not necessarily cross the frontiers of either the exporting or the importing country as a result of being sold (purchased) by a resident to (from) a non-resident;

(2) goods produced by resident units operating in international waters - oil, natural gas, fishery products, maritime salvage, etc. - which are sold directly to non-residents in foreign countries;

(3) goods consumed in resident-owned offshore installations, ships or aircraft operating in international waters or airspace which are purchased from non-residents in foreign countries;

(4) goods which are lost or destroyed after changing ownership but before they have crossed the frontier of the exporting country or the importing country.

(ii) Examples of goods which may cross frontiers but are excluded from exports or imports

(1) goods in transit through a country;

(2) transportation equipment and other movable kinds of equipment which leave or enter a country temporarily, without any change of ownership; for example, construction equipment used for installation or construction purposes abroad;

(3) equipment and other goods which are sent abroad for minor processing, maintenance, servicing, or repair (goods processed and transformed into different goods are included in exports or imports, see <<paragraphs 61-64>>), as is the value of repairs on fixed assets, such as ships, which are sent abroad for extensive repair, renovation or refitting).

(4) other goods which leave, or enter, a country temporarily, being generally returned in their original state and without change of ownership; various examples may be cited: goods sent abroad for exhibition purposes only; equipment for orchestras, stage performances, etc. while on tour abroad; goods on consignment which are returned because an expected sale does not materialize; goods shipped under an operating lease; animals sent abroad for racing, shows, other forms of entertainment, or breeding purposes;

(5) goods shipped to or from a country's own embassies, military bases, or other enclaves which are geographically situated inside the national frontiers of another country;

(6) goods on consignment lost or destroyed after crossing a frontier but before change of ownership occurs.

92. Sometimes the classification of certain physical items as goods is questioned, most often because they may be accorded exceptional treatment

under customs regulations or in the trade returns. The following examples are listed as items of this kind which should be included in goods: commodity gold (i.e., non-monetary gold), silver bullion, diamonds and other precious metals and stones; paper money and coin not in current circulation and unissued securities, all of which should be valued as commodities rather than at their face value; electricity, gas, and water; livestock driven across frontiers; parcel post; government exports and imports (other than those to and from the government's own agencies and personnel), including goods financed by grants and loans; goods transferred to or from the ownership of a buffer stock organisation; migrants' effects; smuggled goods, whether or not detected by customs; and other unrecorded shipments, such as gifts and those of less than a stated minimum value.

93. There are certain physical items which are regarded as financial items that should not be included in goods, among which are the following examples:

(1) Evidences of financial claims, even though they have a material form and are movable, are treated as financial items. Examples of such goods are paper money and coin that are in current circulation and securities that have been issued.

(2) Monetary gold is treated as a financial asset, so that transfers of monetary gold between the authorities of different countries are reflected in the Financial Account.

(3) Non-financial assets belonging to an enterprise, including land, structures, equipment, and inventories, are considered to be financial assets for the owner of that enterprise, when the owner is not a resident of the economy where the enterprise operates. A change of ownership of these assets resulting from the acquisition of an existing enterprise is thus treated as a financial transaction and is not included in goods, except to the extent that such a change of ownership is actually accompanied by a physical movement of goods.

b. Services

94. The export or import of a service requires some kind of contact between a resident producer and a non-resident consumer at the time production actually takes place. In the case of transportation, the contact between producer and consumer is made possible by the mobility of the transport equipment itself. For other types of services, including information services, the contact may be established by means of telecommunications links of one kind or other. However, the production of most services, both producer services and consumer services, requires the producer and consumer to come together in some manner and in a convenient location: This is the case for a wide range of services such as most business and financial services, health, education, recreation,

entertainment and so on. At an international level, the producer may have to travel to the country of the consumer, or vice versa. The mobility of service producers has been greatly enhanced by fast and frequent air travel, while telecommunication links enable staff abroad to continue to draw on the resources of expertise of staff in head offices.

95. For example, it is common for producers of business services, such as consultancy or other advisory services, to send teams of staff to work abroad on assignments resulting from specific contracts negotiated with non-residents. As already explained in <<paragraphs 21, 91-22>>, such production units operating abroad are considered to be integral parts of the parent corporation to which they belong, provided that the volume of production which they carry out abroad does not become so large and the length of time over which that production takes place so long that the unit cannot reasonably be treated as not having a centre of economic interest in the country concerned. When a production unit operating abroad establishes a substantial physical presence in a foreign country by purchasing or renting business premises, acquiring capital equipment, recruiting local staff, and so on, with the intention of engaging in production over a long period of time (a guideline is one year or more, applied flexibly), the production unit in question must be treated as a foreign branch - that is, as a quasi-corporation which is resident in the country in which it is operating. In these circumstances, the output of the branch counts as part of the GDP of the country in which it is located so that it cannot be treated as an export of a service from the parent which owns and controls it.

96. The criterion of residence just outlined, which was described in detail earlier in this chapter <<paragraph 22>> applies equally to all corporations, whether engaged in the production of goods or services. However, the issue is particularly relevant to services producers because establishing a foreign branch (or subsidiary) which supplies services directly to the residents of a foreign country may be the only means by which a unit engaged in service production can expand its sales to non-residents. A corporation which creates a foreign branch for this purpose may regard itself as continuing to "export" services, even when the branch is established on an indefinite, or permanent, basis. However, such a branch is classified in the System as a quasi-corporation which is resident in the country in which it operates, so that there may be an important difference between the way in which exports and imports of services are recorded in the System - and in the balance of payments - and the way in which some corporations themselves may perceive them. Corporations may not recognize any threshold beyond which the production is classified as contributing to the GDP of the country in which the branch is located instead of contributing to the GDP of the country in which the parent is located.

97. From a national accounts viewpoint, the central issue is not so much the exact definition, or coverage, of exports or imports as the definition and coverage of GDP itself. When a branch office is producing services on a

permanent basis inside a country, the value added must be considered part of the GDP of that country, not of the country of residence of the parent corporation.

98. The services which enter into exports and imports of services must have been produced as outputs from processes of production. They do not include incomes which are sometimes described as payments for "services" rendered in the course of production. Payments of compensation of employees from residents to non-residents, or vice versa, are international flows of primary incomes. Such payments occur, for example, in the case of seasonal or border workers who work in a different country from that in which they are resident. Similarly, flows of property income, such as interest and dividends, between residents and non-residents are excluded from international trade in services.

99. The coverage of exports and imports of services corresponds broadly to the types of services which are described in Sections 6 to 9 of the CPC. However, whereas the CPC treats all repairs and processing as service activities, the System does not, as already noted. As the CPC provides a comprehensive listing of the other kinds of services which may enter into international trade, and the Balance of Payments Manual describes a list of standard components of such services, it is not necessary to give all such details here. Nevertheless, it is useful to indicate how some of the more important types of trade in services are treated in the System.

(i) Construction

100. The treatment of international construction raises the same issues as those discussed in <<paragraphs 96-98>> with reference to business consultancy or other services. Contracts for the construction of major projects such as bridges, power stations, or dams are frequently awarded to non-resident corporations. When a construction corporation in country A is awarded a contract in country B, the corporation is obliged to create a site office in country B from which the construction is managed and carried out, in much the same way that a corporation exporting services may have to open a branch office abroad. Although the site office may have no separate legal identity, it may nevertheless be treated as a quasi-corporation for this purpose. The main argument against this treatment is that the site office is created for the duration of a specific project and is dismantled when the project terminates. Thus, it cannot be interpreted as evidence of a lasting economic interest in country B by the corporation.

101. If a site office is not treated as a quasi-corporation, the consequences are that the construction site has to be treated as an enclave of country A inside of country B which is similar to that of an embassy or military base maintained by country A. The value added inside the enclave can then be treated as part of the GDP of country A and the value of the final output produced, i.e., the dam or bridge itself, is treated as an export from country A to country B. In line with the general principles

applied to the measurement of the output of construction, the dam or bridge can be treated as being completed and delivered to the client in stages. While this solution has some merit, it has the serious disadvantage that the value added generated by a major construction project, such as the construction of a dam or bridge which may last several years, is not attributed to the country in which the activity actually takes place. This seems particularly anomalous when most of the labour and materials employed on the project are likely to be supplied locally, while the project itself is likely to have an important impact on incomes and expenditures in the locality. For this reason, the System recommends that quasi-corporations should be created for major construction projects which last for a year or more (subject to the considerations noted in <<paragraph 26>>), even though there may be no lasting economic interest in the country by the construction unit.

102. The consequence of creating a quasi-corporation unit for a construction project undertaken in country B in the above example is that the only exports which are recorded from country A to country B are the goods and services supplied from country A which are incorporated into the final structure: for example, surveyors' plans prepared in country A or turbines or other hydro-electric equipment manufactured in country A which are installed in the dam in country B. Although there may be no change of legal ownership when the parent construction corporation in country A ships equipment to its own construction site located in country B, the system imputes a change of ownership for deliveries of goods to branches or subsidiaries abroad which are not returned. The project may also generate important international flows of income, including compensation of employees, as well as profits and financial flows, but these are not exports or imports of goods and services.

(ii) Installation

103. The installation of equipment is an activity which has much in common with construction. However, as the installation of a specific amount of equipment abroad is clearly a project of limited duration which, in itself, does not signal any lasting economic interest in the country in which it takes place, it is not appropriate to create a quasi-corporation in respect of that activity, even if it happens to take more than a year to complete. Thus, the installation of equipment abroad is always treated as an export of a service in the System and in the Balance of Payments Manual. In practice, the value of the installation costs, like transportation costs, if included in the global value of the equipment exported, may not always be separately recorded.

(iii) Transportation

104. Transportation services encompass those by all modes of transportation - sea, air, and other, including land, internal waterway, space and pipeline - performed by residents of one economy for those of another, that are involved with either the movement of goods (freight), or the carriage of passengers, together with related supporting and auxiliary services. Most transportation services often are provided by corporations through their operation of carriers and similar equipment. Questions arise as to the residence of such units or operators, because the carrier may operate outside the economic territory in which the corporation is resident, either in international waters, in air space, or in one or more other economies. (The residence of corporations is discussed in section B.4, where <<paragraphs 24-26>> are particularly relevant in this context.)

(a) Goods transportation

105. As already stated, by valuing both exports and imports f.o.b. at the frontier of the exporting country, the boundary between trade in goods and trade in services in the System is implicitly fixed see <<paragraphs 36-40>>. This method of valuation also determines the treatment of goods transportation. It is necessary to distinguish transportation within the exporting country up to its frontier, i.e., the point at which goods are valued f.o.b., from transportation beyond that point, which covers both transportation between the frontier of the exporting country and the frontier of the importing country and transportation within the importing country to the final destination of the goods.

106. Transportation costs up to the customs frontier of the exporting country should be incorporated into the f.o.b. price of the goods at that point. The transportation services must not be counted twice, however, so that when they are provided by the exporter or other resident of the exporting country they should not also be recorded as exports of services. However, when the importer (or other resident of the importer's country) is responsible for the transportation of the goods from the factory of the foreign producer up to the frontier of the exporter's country, these transportation costs must be added to the price received by the foreign producer to arrive at the f.o.b. price. This procedure requires an offsetting imputation to be made whereby the foreign producer is deemed to purchase these services from the importer or other resident of the importer's country: Otherwise, the foreign earnings of the exporter would be overstated.

107. Transportation beyond the customs frontier of the exporting country, whether outside or inside the importing country, should be recorded as imports of services when the transportation is provided by a carrier who is not a resident of the importing country. When the imports of goods are initially recorded c.i.f. instead of f.o.b. the transport costs between the customs frontiers of the exporting and importing countries should first be

deducted from the c.i.f. price to arrive at the f.o.b. price. These transportation services should then be recorded as imports of services when they are provided by a non-resident, as just stated.

108. The transportation by resident carriers of goods owned by non-residents which do not enter the resident carrier's country as imports are recorded as exports of services. Conversely, the transportation within a country by non-resident carriers of goods owned by residents which do not leave that country as exports are recorded as imports of services.

(a) Passenger transportation

109. Exports cover the international transportation of non-residents by resident carriers, while imports cover the international transportation of residents by non-resident carriers. These services also include the transportation of residents within their own country by non-resident carriers. Services provided by resident carriers within their own country to non-residents are not recorded under transportation services but are shown under the global headings of "direct purchases in the domestic market by non-residents" and "direct purchases abroad by residents" in the supply and use tables, as adjustment items. Passenger transportation includes the food, drink or other goods supplied to passengers while travelling when passenger fares cover the cost of these items which are provided without additional charge. Any additional services provided to passengers, such as the transport of excess baggage or vehicles or other effects belonging to passengers which are transported with them on the same train, ship, aircraft, etc. are also included under passenger transportation.

(iv) Tourism 1/

110. The item "tourism" does not refer to a particular type of service as such, and hence for this reason is not identified in the CPC. Exports of tourism (receipts) cover purchases of all types of goods and services made by non-residents visiting an economy for business or personal purposes, for less than one year. An exception to the one-year rule applies to students and medical patients who are treated as non-residents even if their stay is for a longer period. Expenditures on health and education should be separately recorded when feasible. Imports of tourism (payments) cover all purchases of goods and services made by residents while travelling abroad for business or personal purposes (see reference in <<paragraph 109>> to adjustment in the supply and use tables).

111. Expenditures on tourism, and also passenger services, must be subdivided to distinguish those expenditures made by business travellers, which are paid for, or reimbursed by, their employers from those

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1/ This item is "travel" in the Balance of Payments Manual.

expenditures made by households. Expenditures by business travellers are part of the intermediate consumption of producers, whereas expenditures by other travellers on personal trips are part of household final consumption expenditures. In order to calculate total final consumption expenditure of resident households from the expenditure made by all households, both resident and non-resident, within the domestic market, it is necessary to add direct purchases abroad by residents and to subtract direct purchases in the domestic market by non-residents (see <chapter XV, Supply and Use Tables and Input-Output>).

(v) Insurance

112. Exports of insurance services cover the provision of insurance to non-residents by resident insurance enterprises, while imports cover the provision of insurance to residents by non-resident insurance enterprises. The treatment of the cost of insurance on goods which are in the process of being exported and imported has to be consistent with the valuation principles adopted for exports and imports of goods and the same conventions must be followed as for goods transportation in these circumstances. These conventions may be summarized as follows: Insurance on internationally traded goods from the exporter's factory, or warehouse, up to the frontier of the exporter's country is to be included in the f.o.b. value of the goods exported. If this insurance is paid for by the importer using an enterprise resident in the importer's country, the exporter is deemed to purchase the insurance and simultaneously recover its cost out of the f.o.b. price recorded in the accounts. Insurance of goods in transit after they have passed the frontier of the exporting country are recorded as imports of services by the importer when the insurance is provided by a non-resident of the importing country. If the insurance is provided by an enterprise resident in the importer's country, it should not be recorded in the External Account of Goods and Services, bearing in mind that imports, as well as exports, are recorded f.o.b. and not c.i.f.

113. In order to simplify the calculation of the c.i.f./f.o.b. adjustment for imports, the assumption is made that, for the economy as a whole, the value of goods lost or damaged between the exporting country and the importing country is approximated by the claims that are payable. Also, by convention the investment income on technical reserves is ignored in this case. Thus the insurance services on imports are calculated by the difference between the total premiums earned and associated claims payable and apportioned between resident and non-resident insurers accordingly. For other types of direct insurance, the insurance services are estimated by applying the relevant ratios of service charges to total premiums, as calculated for resident insurers, or collected for non-resident insurers, if feasible.

114. Imports of reinsurance services are in principle estimated as the balance of all flows occurring between domestic insurers and non-resident reinsurers (premiums ceded, investment income from technical reserves

payable, commissions receivable, claims recovered and insurers' share in the addition to technical reserves, if relevant). Exports of reinsurance services are similarly estimated in principle as the balance of all flows occurring between resident reinsurers and non-resident insurers.

(vi) License fees

115. License fees cover receipts (exports) and payments (imports) of residents and non-residents associated with the authorized use of intangible non-produced non-financial assets and proprietary rights, such as patents, copyrights, trademarks, industrial processes, franchises, etc., and with the use through licensing agreements, of produced originals or prototypes, such as manuscripts, films, etc.

(vii) Financial services

116. Financial services are financial intermediary and auxiliary services (except those of insurance corporations and pension funds) conducted between residents and non-residents. Included are fees for intermediaries' services, such as those associated with letters of credit, bankers acceptances, lines of credit, financial leasing, foreign exchange transactions, etc.; commissions and other fees related to transactions in securities - brokerage, placements of issues, underwritings, redemptions, arrangements of swaps, options, and other hedging instruments, etc.; commissions of commodity futures traders; and services related to asset management, administration of stock and other financial market exchanges, etc. Service charges on purchases of IMF resources are included among an economy's financial services payments, as are charges (similar to a commitment fee) associated with undrawn balances under stand-by or extended arrangements with the IMF. In addition to the above explicit commissions and fees, there are financial intermediation services indirectly measured, reflecting services that are not explicitly charged but that may be imputed or derived from the difference between an appropriate "reference" interest rate (such as an interbank or central bank rate) and the interest rate actually applied to loans or debt securities (paid by borrowers) and deposits (received by depositors) (see <chapter VI, The Production Account>). The estimation of the financial intermediation services indirectly measured is equivalent to the shifting of a portion of interest to financial services.

2. The External Account for Primary Incomes and Current Transfers

117. As noted in <<paragraph 86, 126>>, this account, on the resources side, covers, as receivables by the rest of the world (payables by the total economy), and on the uses side payables by the rest of the world (receivables by the total economy): (1) compensation of employees; (2) property income (including reinvested earnings on foreign direct investment); (3) taxes minus subsidies on production and imports; (4) current taxes on income, wealth, etc.; (5) social contributions and benefits; and (6) other current transfers. Items (1) through (3) make up the external component of the Primary Distribution of Income Account, while items (4) through (6) (all current transfers), make up the external component of the Secondary Distribution of Income Account. Excluded from primary incomes are receipts derived from the use of tangible and intangible assets, which are classified as leasing or rentals, under services or under transportation. Financial leasing arrangements are taken as evidence that a change of ownership is intended, and part of the lease payments is construed as interest on a financial asset.

a. Compensation of employees

118. A full discussion of compensation of employees appears in <chapter VII, The Primary Distribution of Income Account>. In the External Account of Primary Incomes and Current Transfers, compensation of employees comprises wages, salaries, and other benefits, in cash or in kind, earned by individuals in an economy other than the one in which they are resident for work performed for (and paid by) a resident of that economy. Included are contributions paid by employers on behalf of employees to social security schemes or to private insurance or pension funds - including imputed contributions to unfunded pension schemes - to secure benefits for employees. Employees in this context include seasonal or other short-term workers (less than one year) and border workers (with a centre of economic interest in their own economies). In the case of local (host country) staff of embassies and consulates, because these institutional entities are considered to be extraterritorial to the economy in which they are located, the compensation received by local staff is that of a resident entity from a non-resident entity.

119. Compensation received by employees from international organisations (again treated as extraterritorial) represent payments to residents from a non-resident entity (1) if the employees are residents of the economy of location, or (2) if the employees are from other economies but are employed for one year or more and thus are treated as residents of the economy of location. In the case of employees from other economies who are employed for less than one year, there is no resident payment involved. (For the treatment of technical assistance personnel working on assignments of one year or more, see <<paragraph 18>>).

120. Personal expenditures by non-resident workers in the economy where employed, including those on installation projects, are to be recorded under direct purchases in the domestic market by non-residents, and taxes paid, contributions to pension funds, etc., in that economy are to be recorded as current transfer payments. Gross recording of compensation and expenditures is recommended, although, on practical grounds, recording may be limited to estimates of net income in some instances.

121. The distinction between those individuals whose earnings are to be classified as "compensation of employees" (persons who are not residents of the economy where they work) and migrants (persons who have become residents of that economy by virtue of being expected to live there for a year or more) is often hard to draw in practice. The transactions of the compiling economy with the rest of the world as the result of an individual's activities will be in balance whether that individual is regarded as a resident or a non-resident. An effort should nonetheless be made to observe the distinction between foreign workers and migrants if possible, as lack of uniformity in the statistical treatment of the same individuals by the two compiling economies concerned can create problems of comparability between the external transactions accounts or balance of payments statements for those economies.

b. Taxes minus subsidies on production and imports

122. A discussion of the various types of taxes on production and imports and subsidies appears in <chapter VII, The Primary Distribution of Income Account>, including links with the IMF and Organisation for Economic Co-operation and Development (OECD) tax classifications and references to taxes and subsidies resulting from multiple exchange rates. (A more detailed discussion of the latter, together with the guidelines for conversion, appears in section C.3. of this chapter).

c. Property income

123. Property income covers income derived from a resident entity's ownership of foreign financial assets. The most common types of such income are interest and dividends. (Property income is fully discussed in <chapter VII, The Primary Distribution of Income Account>.) Interest, including discounts in lieu of interest, comprises income on loans and debt securities, i.e., such financial claims as bank deposits, bills, bonds, notes, and trade advances. Net interest flows arising from interest rate swaps also are included. Dividends, including stock dividends, are the distribution of earnings in respect of the shares and other forms of participation in the equity of incorporated private enterprises, cooperatives, and public corporations.

124. Among other types of property income are the earnings of branches and other unincorporated direct foreign investment enterprises (see <<paragraphs

153-155>>), and the direct investor's portion of the earnings of incorporated direct foreign investment enterprises that are not formally distributed, i.e., earnings other than dividends or withdrawals from income of quasi-corporations. The part of those reinvested earnings that is attributed to the direct investor is proportionate to his participation in the equity of the enterprise. Another classification of property income is that attributed to insurance policy holders, as described in <<chapter VII, The Primary Distribution of Income Account, paragraphs 126-127>>. Finally, there is a component of property income that is reflected in adjustment items related to the change in the net equity of households on pension funds. The adjustment item recorded as uses reflects the change in net equity held by resident households on non-resident pension funds (liability of the rest of the world); the adjustment item recorded as resources reflects the change in net equity held by non-resident households on resident pension funds (financial asset of the rest of the world).

d. Current transfers

125. Three main types of current transfers are distinguished in the External Account of Primary Incomes and Current Transfers, as in the Secondary Distribution of Income Account: (1) current taxes on income and wealth, etc.; (2) social contributions and benefits; and (3) other current transfers. (A full discussion of these transfers appears in <chapter VIII, The Secondary Distribution of Income Accounts>). It is sufficient to note here that many of the taxes included in (1) above are payable regularly every tax period (as distinct from capital taxes levied infrequently), while others include taxes on international transactions such as on foreign exchange purchases or sales, travel, etc.; that (2) consists of current transfers in the form of contributions made under social insurance schemes to those organised by government units (social security schemes) or through private corporations, and of cash transfers in the form of benefits, e.g., pensions; and that (3) consists of various other current transfers between general government and foreign governments, etc.

E. The External Accumulation Accounts

126. There are two pairs of external accumulation accounts: first, the Capital Account and the Financial Account, which together comprise the "capital and financial account" 2/ of the balance of payments as set forth in the Balance of Payments Manual, and second, the Other Changes in Assets Accounts, comprising two types of changes in assets, liabilities, and net worth (the Other Changes in Assets Accounts are covered in detail for the System as a whole in <chapter XII, Other Changes in Assets Accounts>), between opening and closing Balance Sheets that do not reflect transactions

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2/ Final determination of the appellation of this account in the balance of payments is yet to be resolved.

as recorded in the Capital Account and Financial Account previously described. The first type, reflected in the Other Changes in Volume of Assets Account, covers changes that result from factors which change the volume of assets held abroad by residents, e.g., uncompensated seizures, recognition by a creditor that a loan to a non-resident is not collectible, etc. The second type, reflected in the Revaluation Account, covers changes in prices and exchange rates, which result in holding gains and losses on foreign financial assets.

1. The Capital Account

127. The Capital Account covers, on the changes in liabilities side, capital transfers receivable and payable, and on the change in assets side, acquisitions less disposals of non-produced, non-financial assets, between non-residents (the rest of the world) and residents (the total economy). (Capital transfers are discussed fully in <chapter X, The Capital Account>). It is sufficient to note here that such transfers may be in kind or in cash. The former consists of the transfer of ownership of a tangible or intangible fixed asset, or the cancellation of a financial claim by mutual agreement between a creditor and a debtor (debt forgiveness); the latter requires (or expects) the recipient to use the cash transferred for the acquisition of an asset or assets. Thus, the essential characteristic of a capital transfer is that it involves the disposal or acquisition of assets by one or both of the parties to the transaction and that it results in changes in net worth of one or both parties. In the System, a transfer should be classified as a capital transfer by both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. (The time of recording and valuation aspects of capital transfers, along with a description of specific examples, such as capital taxes, investment grants, debt forgiveness, etc., appear in <chapter X, The Capital Account>).

128. Acquisitions less disposals of non-produced, non-financial assets appear on the changes in assets side of the account, recording changes in the value of these assets resulting from transactions of non-residents with residents. The acquisitions less disposals recorded in the Capital Account comprise the total value of such assets acquired by the rest of the world during the accounting period less the total value of such assets disposed of. In the external Capital Account, this item does not cover land in a given economic territory because, by convention, all owners or purchasers of land must be resident institutional units. If a non-resident owns or purchases land, a notional resident unit is created and deemed to own the land, and the non-resident is deemed to have acquired a financial claim on the notional resident unit. Thus, all transactions in land in a given economic territory are deemed to occur between resident units. However, there may be uncommon cases in which land shifts from one economic territory to another, e.g., the purchase of land by a foreign embassy. That land then is located in the economic territory of the country of that embassy, and is no longer part of the economic territory of the country of location. The same holds true in the case of a foreign embassy selling land. In these

instances, a transaction in land between residents and non-residents is to be recorded. In addition, acquisitions less disposals of intangible non-financial assets are recorded here, including patented entities, leases or other transferable contracts and purchased goodwill (see <chapter X, The Capital Account>, for discussion and definitions).

2. Changes in net worth and net lending or borrowing

129. The total of the right hand side of the Capital Account reflects the changes in net worth (of the rest of the world) due to the current external balance and capital transfers. It represents the positive or negative resources available for the accumulation of assets by the rest of the world vis-à-vis the economy. When combined with acquisitions less disposals of non-produced non-financial assets on the left side, the result is a balancing item labelled net lending (if a surplus) or net borrowing (if a deficit) of the rest of the world.

3. The Financial Account

130. The Financial Account is the second account in the external accumulation accounts, following the Capital Account in the accounting structure. It records all transactions in financial assets between the rest of the world and resident units. On the asset side of the account, acquisitions less disposals of financial assets by non-residents from residents are recorded; on the liability side, incurrence of liabilities less repayments by non-residents to residents are recorded. The balancing item of the Financial Account, net lending/net borrowing, i.e., net acquisition of financial assets minus net incurrence of liabilities, is equal to the balancing item in the Capital Account (for a full discussion of the Financial Account in the System, see <chapter XI, The Financial Account>).

131. All external transactions, with the exception of transfers in kind, involve an entry in the financial account, whether they are current account transactions or are associated only with an exchange of financial assets or the creation of assets and offsetting liabilities. All transactions involve a legal or effective change of ownership.

a. Financial assets

132. Although an extensive discussion of financial assets appears in <chapter XI, The Financial Account> and is fully applicable to the external Financial Account, those items of particular importance to the external account will be elaborated upon here. In particular, it is appropriate to note that although monetary gold and IMF SDRs are included among foreign financial assets, they have no counterpart liabilities in that they do not represent claims on other units. Also, for corporate equity shares, the

liability does not represent a fixed redemption value. In addition, for certain financial derivatives, such as options, liabilities are attributed by convention to the issuer.

133. In the determination of which financial assets constitute claims on or liabilities to non-residents, the creditor and debtor (or transactors) must be residents of different economies. The unit in which the claim or liability is denominated - whether the national currency, a foreign currency, or a unit like the SDR - is not relevant. Furthermore, assets must represent actual claims that are legally in existence. The authorization, commitment, or extension of an unutilized line of credit or the incurrence of a contingent obligation does not establish such a claim, and the pledging or setting aside of an asset (as in a sinking fund) does not settle a claim or alter the ownership of the asset. Although contingent assets and liabilities are excluded from financial items, as noted above, options and related derivatives are included among financial assets and transactions when they are tradable and have a current market value see <chapter XI, The Financial Account>.

134. By convention, the ownership of some non-financial assets is construed as the ownership of financial assets, i.e., claims. Three specific cases may be noted:

(1) Immovable assets, such as land and structures (except when the land and structures are owned by foreign government entities and thus are not part of the economic territory), are construed as always being owned by residents of the economic territory where they are located. When the owner of such assets is a non-resident, therefore, that entity is considered to have a financial claim on a resident entity that is construed as being the owner.

(2) An unincorporated enterprise that operates in a different economy from the one in which its owner resides is considered to be a separate entity; that entity is a resident of the economy where it operates rather than of the economy of its owner. All assets, non-financial as well as financial, attributed to such an enterprise are to be regarded as foreign financial assets for the owner of the enterprise.

(3) Any goods transferred under a financial leasing arrangement are presumed to have changed ownership and thus to have been converted into a financial asset for the lessor and a liability for the lessee.

b. Selected transactions in financial assets

135. Transactions in monetary gold between residents and non-residents, i.e., transactions between the authorities and their counterparts in other economies, or with international monetary organisations, are recorded on the left (changes in assets) side of the Financial Account. A purchase by the rest of the world is recorded as a positive entry, a sale by the rest of the world as a negative entry. (Transactions in non-monetary gold between residents and non-residents are recorded as exports or imports of goods).

136. Transactions in SDRs, international reserve assets created by the IMF to supplement other reserve assets of official holders, also are recorded on the left (changes in assets) side of the Financial Account. Changes in the authorities' holdings of SDRs can arise through (1) transactions involving SDR payments to or receipts from the IMF, other participants in the SDR Department of the IMF, or other IMF-designated holders, or (2) allocation or cancellation. Transactions such as those enumerated under (1) are included in the Financial Account, while allocations/cancellations are not entered.

137. Trade credits are a sub-item of "other accounts receivable/payable" and reflect trade credit for goods and services extended directly (not loans to finance trade credit, which are classified under "loans") and advances for work in progress. Such credits from suppliers may be measured by the difference between the entries for the underlying goods and services recorded as of the date of change of ownership and the entries for payments related to these transactions.

138. Use of IMF credit and loans from the IMF is a component of "loans", and comprises the compiling country's drawings on the Fund (except from the "reserve tranche", i.e., a reserve deposit in the Fund). Included are purchases and borrowings under stand-by, extended and various structural adjustment arrangements, together with Trust Fund loans. A reduction in the Fund's holdings of the compiling country's currency that are in excess of the country's quota in the Fund minus its reserve tranche position constitutes a repayment of the use of Fund credit.

139. Direct foreign investment related transactions in financial assets and liabilities, for both inward and outward investment, are to be recorded under the appropriate classifications, i.e., equity capital under "shares and other equity", loans and other intercompany transactions under "other accounts receivable/payable." The above transactions also are to be recorded separately as a memorandum item.

140. Reinvested earnings of direct foreign investment enterprises (see <<paragraph 153>> for definition of the latter), wholly or partly owned by non-residents (unincorporated branches, subsidiaries and, when so decided, associates as defined) are recorded in the External Account of Primary Incomes and Current Transfers as property income paid to the parent or direct investor, and in the Financial Account as reinvested in the enterprise, thus adding to the net equity of that enterprise.

4. Other Changes in Assets Accounts

141. This pair of accounts was described in <<paragraph 86, 126>>. The following paragraphs refer to the two individual accounts covered.

a. Other Changes in Volume of Assets Account

142. The left side of the account records changes in assets of the rest of the world, the right side changes in liabilities. One type of entry on the left side relates to non-financial assets. There may be instances of uncompensated seizures, e.g., for intangible non-financial assets, the seizure of patents, software, or other originals owned by non-residents. For tangible assets, there may be uncompensated seizures associated with territorial annexations. For financial assets, there may be entries for a variety of uncompensated seizures, other volume changes in financial assets and liabilities n.e.c. (e.g., writing off bad debts), and for changes in classification and structure. A possible example of the latter might be changes resulting from the merger of a non-resident corporation, in which a resident owns shares and on which he has claims (loans), with another non-resident corporation, i.e., the resident receives shares in the new corporation equal to the shares in, plus loans to, the original corporation. On the right side of the accounts (changes in liabilities), there are entries for uncompensated seizures, for other volume changes in financial assets and liabilities n.e.c. (e.g., the counterpart to the writing off of bad debt by the creditor on the left side), and for changes in classification and structure (see example above).

143. The above noted types of changes in the volume of assets as shown on the left side (changes in assets of the rest of the world) and right side (changes in liabilities of the rest of the world) of the account, result in the balancing item "changes in net worth due to other changes in volume of assets".

b. Revaluation Account

144. The Revaluation Account, for the System as a whole, is described in <chapter XII, Other Changes in Assets Accounts>. It is sufficient here to summarize the aspects of the account that pertain particularly to external financial assets and liabilities. While the Revaluation Account in the System records the holding gains/losses accruing to the owners of financial and non-financial assets and liabilities during the accounting period involved, the external Revaluation Account applies only to financial assets and liabilities.

145. The account first shows nominal holding gains/losses, with a subsequent breakdown into two components - neutral holding gains/losses and real holding gains/losses. (The term "capital gains" is sometimes used

elsewhere, rather than holding gains, but the latter is used in the System). The nominal holding gain/loss is that value accruing to the non-resident creditors and debtors as a result of a change in their assets'/liabilities' monetary value, during the time that they are held, from the beginning to the end of the accounting period. The change in the monetary value of the asset may reflect a change in its price (in national currency) and/or a change in the relevant exchange rate. As to the latter, the value of the nominal holding gains accruing from a period may be calculated by the difference between the opening and closing balance sheet values minus the value of transactions for the period. For this calculation, transactions in foreign assets are to be converted into national currency using the exchange rate prevailing at the time of transaction, i.e., the midpoint between buying and selling rates, while the opening and closing balance sheet values are to be converted using the exchange rates prevailing at the respective dates the balance sheets are drawn up.

146. The neutral holding gain component is defined as the value of the holding gain that would be required to maintain the purchasing power of the asset - expressed in national currency - over the time period involved, i.e., the holding gain needed to keep pace with the overall change in the general price level. The real holding gain/loss component is that value - expressed in national currency - of the asset resulting from the difference between the nominal and the neutral gain/loss. The real holding gains (losses) of creditors in one economy may not be equal to the real holding losses (gains) of debtors in another economy, in regard to the same asset, if the rate of change in the general price level in the two economies differs.

147. The balancing item in the external Revaluation Account is "changes in net worth due to nominal holding gains/losses", representing the difference between the sum of holding gains/losses on the financial assets owned by non-residents and the sum of holding gains/losses on their liabilities. (A holding gain (loss) may reflect a positive (negative) revaluation of an asset or a negative (positive) revaluation of a liability). The balancing item is subdivided into two components, neutral holding gains/losses, reflecting changes in net worth due to changes in the general price level, and real holding gains/losses due to changes in relative prices (including the effects of exchange rate changes on conversions into national currency).

F. Relationship Between the Current External Transactions and Accumulation Accounts and the Balance of Payments Accounts

148. Although a detailed reconciliation between the balance of payments accounts as reflected in the Balance of Payments Manual and the external transactions and accumulation accounts in the System is presented in an Annex, a brief summary of the relationship between the two is appropriate at this point. First, it should be noted that the integration of the balance of payments accounts with the System is reinforced by the fact that in almost all countries, balance of payments data are compiled first, and

subsequently incorporated into the national accounts. There is virtually complete concordance between balance of payments concepts as delineated in the Balance of Payments Manual and in the System's Rest of the World Account in respect to definitions of residence, valuation and time of recording of transactions, currency conversion procedures, coverage of international transactions in goods, services, primary incomes, and current transfers, coverage of capital transfers and coverage of transactions in external financial assets and liabilities.

149. In the balance of payments accounts, the current account contains the flows reflected in the External Account of Goods and Services plus the External Account of Primary Incomes and Current Transfers in the System. The Capital Account in the balance of payments is identical with that account in the System's external accumulation accounts, and the Financial Account in both systems essentially has the same coverage (see <<paragraph 127>>). There are differences only in the degree of detail (reflected in the Annex), in the treatment of one specific item, and in the classification of financial items.

150. As to the specific item mentioned above, financial intermediation services indirectly measured is included in the External Account of Goods and Services, reflecting services that are not explicitly charged, but is not included in the balance of payments accounts. However, it is included indistinguishably under "investment income, interest" in those accounts.

151. As to the classification of financial items, whereas in the System the primary basis for classification of financial assets is by type of instrument, as reflected in the seven major categories, in the balance of payments accounts the primary basis for classification is by function, i.e., direct (foreign) investment, portfolio investment, other capital and reserve assets. Within those functional areas, the next level of breakdown is by type of instrument, that breakdown encompassing the seven major categories of transactions in financial assets and liabilities classified in the System. However, "securities other than shares" in the System is subdivided in the balance of payments accounts into bonds and notes, money-market instruments and financial derivatives. Also, the two components of insurance technical reserves in the System - net equity of households on life insurance reserves and pension funds, and prepayments of premiums and reserves against outstanding claims - are included indistinguishably in the balance of payments accounts under "portfolio investment", equity securities, and under "other capital", other assets, respectively.

152. "Direct foreign investment" appears as a memorandum item in the classification of transactions in financial assets and liabilities in <chapter XI, The Financial Account>. However, as noted above, direct investment is a major functional category in the balance of payments accounts, as is "portfolio investment". The Balance of Payments Manual concept of direct investment (identical with that of the OECD Detailed Benchmark Definition of Foreign Direct Investment, Second Edition) reflects the objective of a resident institutional unit (direct investor) obtaining a

lasting interest in an enterprise in another economy, together with a significant influence as evidenced by an effective voice in management of the (direct investment) enterprise.

153. A direct investment enterprises is defined as an incorporated or unincorporated enterprise in which an investor resident in another economy owns 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). Direct investment enterprises comprise those entities that are identified as subsidiaries (investor owns more than 50 per cent), associates (investor owns 50 per cent or less) and branches (wholly or jointly-owned unincorporated enterprises), either directly or indirectly owned by the investor. Foreign-controlled enterprises in the System include direct investment subsidiaries and branches, but associates may be included or excluded by individual countries according to their qualitative assessment of foreign control (most direct investment enterprises, in fact, either are branches or are subsidiaries that are wholly or majority-owned by non-residents or in which a clear majority of the voting stock is held by a single direct investor or group). It warrants noting that in some instances, a public enterprise may be a direct investment enterprise, but not a foreign-controlled enterprise.

154. The benefits that direct investors expect to derive from their voice in management are different from those anticipated by portfolio investors having no significant influence over the operations of the enterprises. From the viewpoint of the direct investors, enterprises often represent units in a multinational operation, the overall profitability of which depends on the advantages to be gained by deploying the various resources available to the investors in units located in different economies. Direct investors are thereby in a position to derive benefits in addition to the property income that may accrue on the capital that they invest, e.g., the opportunity to earn management fees or other sorts of income. Such extra benefits are likely to be derived from the investors' association with the enterprises over a considerable period of time. In contrast, portfolio investors are primarily concerned about the safety of their capital, the likelihood of an appreciation in its value, and the return that it generates. They will evaluate the prospects separately with respect to each independent unit in which they might invest and may often shift their capital with changes in these prospects, which may be affected by short-term developments in financial markets.

155. The System's concept of foreign-controlled resident corporations is linked to the balance of payments concept of direct foreign investment enterprises in that the former is a component of the latter (see <<paragraph 153>> for definitions). While the primary distinguishing feature of direct investment in the balance of payments is significant influence or effective voice in management, the feature for foreign-controlled enterprises in the System is control.

156. The functional category "reserve assets" in the balance of payments accounts is an important analytical element in that system, as noted in the Balance of Payments Manual, although it has no counterpart as such in the System. Reserve assets consist of those external assets that are readily available to, and controlled by, the authorities for direct financing of payments imbalances and for indirect regulation of the magnitude of such imbalances through various actions (e.g., exchange market intervention). Transactions in the components of reserve assets - monetary gold, SDRs, reserve position in the IMF, foreign exchange assets (currency, deposits, and securities) and other claims - are indistinguishably included under transactions in those financial assets in the System.

G. The External Assets and Liabilities Account

157. This account completes the sequence of the external accounts, reflecting the level and composition of the stock of external financial assets and liabilities of the economy that result from the external transactions accounts and accumulation accounts. The External Assets and Liabilities Account consists entirely of financial assets and liabilities. The opening and closing balance sheets are equivalent to the international investment position, as delineated in the Balance of Payments Manual, 3/ at the respective dates, while the changes in the balance sheet are equivalent to changes in the position. It warrants noting that the External Assets and Liabilities Account should include, on the asset side, the cumulative net result of all transactions in monetary gold (sales/purchases) and SDRs. Also, it should be noted that the net result, or figures on the asset side (point of view of the rest of the world) may be negative, if the balance of accumulated transactions reflects net sales by the rest of the world. An economy's net claims on the rest of the world, or net international investment position, when summed with the economy's stock of non-financial assets, comprise the total economy's net worth.

1. Structure of the account

158. The financial assets and liabilities included in the account are the same as those in the Financial Account. The values of the financial assets and liabilities in the balance sheet are as of a particular point in time. The System requires balance sheets to be drawn up at both the beginning and end of the accounting period, which usually covers one year, and requires a full accounting of the changes in value of the financial assets and

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3/ It should be noted that the international investment position (as are the balance of payments accounts) is presented from the point of view of the total economy (residents), while the External Assets and Liabilities Account in the System is presented from the point of view of the rest of the world (non-residents). As a result, credit and debit entries in the investment position are reversed in the External Assets and Liabilities Account.

liabilities between the opening and closing balance sheets. Those changes in value may be due to transactions, to changes in the volume of assets and/or to nominal holding gains and losses, as previously discussed. The net result of the changes in value is changes in net worth, i.e., changes in assets less changes in liabilities, which is reflected in the net worth balancing item in the closing balance sheet.

2. Valuation

159. In principle, all external financial assets and liabilities should be valued at current market prices at the time to which the Balance Sheet relates. Market prices may have to be estimated or approximated, in some instances, e.g., for shares in corporations not quoted on stock exchanges or otherwise traded regularly. 4/ The basis of valuation of financial assets/liabilities in the balance sheet is covered in detail in section C.1.f of this chapter and in <chapter XIII, Balance Sheet>. It warrants repetition here that assets and liabilities denominated in foreign currencies are to be converted into national currency at the market exchange rate prevailing at the date for which the balance sheet is drawn up, using the midpoint between the buying and selling spot rate. Conversion under a multiple rate system is discussed in section C.3 in this chapter.

3. Direct foreign investment

160. Financial assets and liabilities that are associated with direct foreign investment - both outward and inward - are to be recorded under the appropriate financial assets listed in the classification, i.e., shares and other equity (including reinvested earnings), loans, and other accounts receivable and payable. These direct investment-related entries also are to be recorded separately as a memorandum item.

4. External debt and the Balance Sheet

161. The net financial claims of an economy on the rest of the world, i.e., external financial assets less financial liabilities, often are the basis for characterizing an economy as a "net creditor" or "net debtor". Such a label is not accurate as a depiction of the net external position of the economy. Rather, it is more relevant to view only the non-equity components of the external balance sheet as debt, i.e., all recorded liabilities other than shares and other equity. This view is in general concordance with the

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4/ For example, for quasi-corporations such as direct investment branches, the value of proprietors' net equity is equal to the total value of the enterprises' assets minus the total value of any liabilities directly attributable to the operation of the quasi-corporation, such as trade credit received from suppliers.

"core" definition of external debt 5/ in External Debt: Definition, Statistical Coverage, and Methodology (1988), a joint study by the IMF, World Bank, OECD, and the Bank for International Settlements.

162. Particularly for countries experiencing external debt problems, identifying debtor and creditor sectors for the rest of the world and counterpart domestic sectors is of analytical importance. The three-dimensional tables provided in the System show the links between debtor and creditor sectors, such as foreign sources of financing, etc., and can be supplemented or rearranged to identify such items as debt reorganisation, arrears of interest and amortization, etc. In this respect, the Balance of Payments Manual covers specific recording procedures for the above and other "exceptional financing" entries in the international accounts.

5/ "Gross external debt is the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to nonresidents to repay principal, with or without interest, or to pay interest, with or without principal."

TABLE XIV.1 ACCOUNT V: REST OF THE WORLD ACCOUNT (external transactions account)

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USES									RESOURCES								
ACCOUNTS	S.2 REST OF THE WORLD	S.1 TOTAL ECONOMY	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.14 HOUSEHOLDS	S.13 GENERAL GOVERNMENT	S.12 FINANCIAL CORPORATIONS	S.11 NON-FINANCIAL CORPORATIONS	TRANSACTIONS AND BALANCING ITEMS	S.11 NON-FINANCIAL CORPORATIONS	S.12 FINANCIAL CORPORATIONS	S.13 GENERAL GOVERNMENT	S.14 HOUSEHOLDS	S.15 NON PROFIT INSTITUTIONS SERVING HOUSEHOLDS	S.1 TOTAL ECONOMY	S.2 REST OF THE WORLD	ACCOUNTS
V.I EXTERNAL ACCOUNT OF GOODS AND SERVICES								P.6 Exports of goods and services P.61 Exports of goods P.62 Exports of services P.7 Imports of goods and services P.71 Imports of goods P.72 Imports of services B.11 EXTERNAL BALANCE OF GOODS AND SERVICES								V.I EXTERNAL ACCOUNT OF GOODS AND SERVICES
V.II EXTERNAL ACCOUNT OF PRIMARY INCOMES AND CURRENT TRANSFERS								D.1 Compensation of employees D.2-D.3 Taxes minus subsidies on production and imports D.4 Property income D.5 Current taxes on income, wealth etc. D.6 Social contributions and benefits D.7 Other current transfers B.12 CURRENT EXTERNAL BALANCE								V.II EXTERNAL ACCOUNT OF PRIMARY INCOMES AND CURRENT TRANSFERS

CHANGES IN ASSETS

CHANGES IN LIABILITIES AND NET WORTH

CHANGES IN ASSETS		CHANGES IN LIABILITIES AND NET WORTH
V.III.1 CAPITAL ACCOUNT	B.12 CURRENT EXTERNAL BALANCE	V.III.1 CAPITAL ACCOUNT
	K.2 Acquisitions less disposals of non-produced non-financial assets	
	D.8 Capital transfers receivable	
	D.8 Capital transfers payable	
	B.10.1 CHANGES IN NET WORTH DUE TO SAVING AND CAPITAL TRANSFERS	
	B.9 NET LENDING(+)/NET BORROWING(-)	
V.III.2 FINANCIAL ACCOUNT	F.1 Monetary gold and SDR's	V.III.2 FINANCIAL ACCOUNT
	F.2 Currency and deposits	
	F.3 Securities other than shares	
	F.4 Loans	
	F.5 Shares and other equity	
	F.6 Insurance technical reserves	
	F.7 Other accounts receivable	
V.III.3.1 OTHER CHANGES IN VOLUME OF ASSETS	K.8 Uncompensated seizures	V.III.3.1 OTHER CHANGES IN VOLUME OF ASSETS
	K.10 Other volume changes in financial assets and liabilities n.e.c.	
	K.12 Changes in classifications and structure	
	B.10.2 CHANGES IN NET WORTH DUE TO OTHER CHANGES IN VOLUME OF ASSETS	
V.III.3.2 REVALUATION ACCOUNT	K.11. Nominal holding gains/losses	V.III.3.2 REVALUATION ACCOUNT
	K.11.1 Neutral holding gains/losses	
	K.11.2 Real holding gains/losses	
	AF. Financial assets	
	AF. Liabilities	
	B.10.3 CHANGES IN NET WORTH DUE TO NOMINAL HOLDING GAINS/LOSSES	
	B.10.31 NEUTRAL HOLDING GAINS/LOSSES	
	B.10.32 REAL HOLDING GAINS/LOSSES	

ASSETS								LIABILITIES AND NET WORTH								
V.IV.1 OPENING BALANCE SHEET								AF. Financial assets AF. Liabilities B.90 NET WORTH								V.IV.1 OPENING BALANCE SHEET
V.IV.2 CHANGES IN BALANCE SHEETS								Total changes in assets AF. Financial assets AF. Liabilities B.10 CHANGES IN NET WORTH								V.IV.2 CHANGES IN BALANCE SHEETS
V.IV.3 CLOSING BALANCE SHEET								AF. Financial assets AF. Liabilities B.90 NET WORTH								V.IV.3 CLOSING BALANCE SHEET